HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Victoria CMA

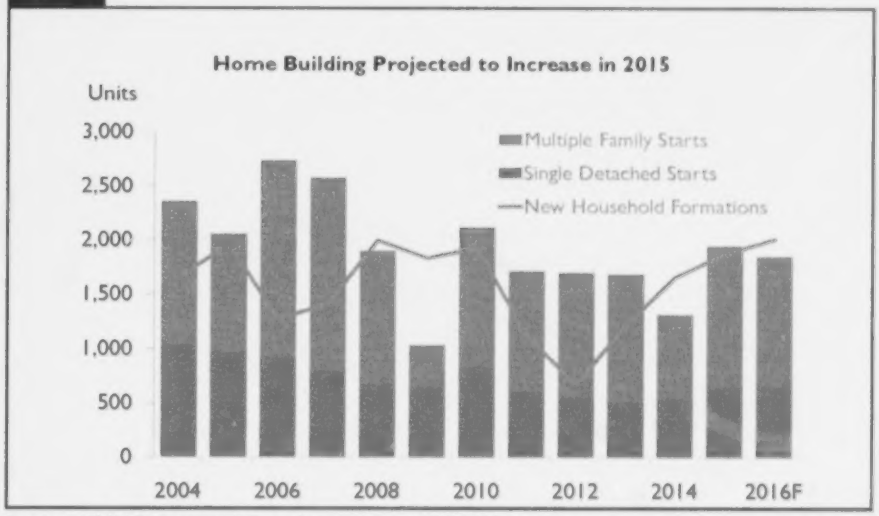
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2015

Highlights

- Housing starts are forecast[1] to total 1,950 units in 2015 to meet growing demand from new residents before stabilizing at 1,850 units in 2016, when mortgage interest rates are projected to edge higher.
- MLS® sales are expected to increase 8 per cent to 6,850 units in 2015 as the economy and employment improve.
- Rental vacancy rates will remain stable at 1.4 per cent in both 2015 and 2016 as demand balances new supply.
- Economic fundamentals, including employment and population growth, will support a stable housing market through 2016.

Figure 1



Sources: CMHC Starts and Completions Survey, CMHC Forecast
PEOPLE 2014 Household Projections, B.C. Statistics, calculations by CMHC

[1] The forecasts included in this document are based on information available as of April 20, 2015.

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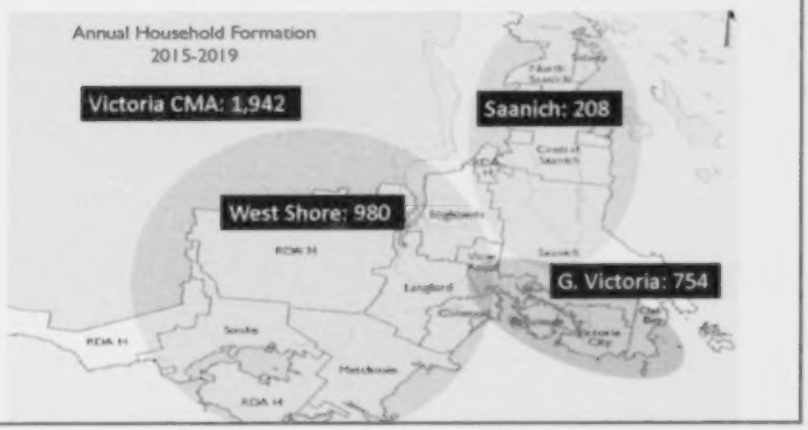
New Home Construction to Rebound in 2015

Demand for new homes in the Victoria Census Metropolitan Area (CMA) will be supported through the forecast horizon by modest employment and population growth combined with low mortgage interest rates. Housing starts are forecast to increase to 1,950 starts in 2015. While single-family home construction is expected to increase moderately, multiple-family home construction, particularly condominium and rental apartments, will be responsible for most of the additional units getting underway. As inventories of unsold multi-family homes trend lower from the levels recorded in 2013-2014, builders are expected to proceed with planned projects that will add density in central neighbourhoods and meet rising demand from new residents. At the end of Q1 2015, the inventory of completed and unsold apartment condominiums stood at 187 units, less than half of the 383 units available at the end of Q1 2014.

Construction activity is expected to continue at a similar pace in 2016, with 1,850 total starts forecast. Single-family home construction is expected to hold steady, while the number of multiple-family units getting underway will ebb slightly as growth between the urban core and outlying areas becomes more balanced. The projected increase in mortgage interest rates, although modest, will temper the effects of employment and population growth, keeping demand for new and resale homes steady.

Figure 2

Population Based Demand Concentrated



Source: BC Stats PE.O.P.L.E. 2014 projections
* Note: G.Victoria includes Victoria, Esquimalt, Oak Bay and View Royal; West Shore includes Sooke, Langford, Colwood, Metchosin, Highlands, and CRD Sub-H; and Saanich includes Saanich, Sidney, C.Saanich, and N.Saanich.

Victoria is forecast to benefit from rising net migration and household[2] formation, providing a solid groundwork for local housing demand throughout the forecast horizon. Over a decade timeframe, the housing stock typically expands proportionally to household growth: as more households are created, the demand for new homes increases. An estimated 1,660 new households were formed in the Victoria CMA in 2014. As more people move to the area and the employment prospects of younger demographics improve, household formation is projected to reach 1,880 in 2015 and 2,010 in 2016[3]. An average of 1,940 households are expected to be added to the region each year for the next five years, a notable increase over the average of 1,320 new households in each of the past five years.

Balanced Resale Market Conditions to Prevail

Victoria area MLS® sales volumes are expected to grow to 6,850 transactions in 2015, an increase of 8 per cent over 2014. A mild winter contributed to a strong start to the market this year, with first quarter 2015 Victoria area MLS® home sales increasing 22 per cent compared with the same period in 2014. Single-detached, townhouse and apartment condominium units all recorded increased resale activity.

The pickup in sales this year is the extension of an upwards trend that began in mid-2013. Strong growth in household formations combined with improved job prospects for younger households have led to increased demand for housing. Low mortgage

[2] A household, as defined by Statistics Canada, is a person or group of persons who occupy the same dwelling and do not have a usual place of residence elsewhere in Canada or abroad. The dwelling may be either a collective dwelling or a private dwelling. The household may consist of a family group such as a census family, of two or more families sharing a dwelling, of a group of unrelated persons or of a person living alone. Household members who are temporarily absent on the reference day (e.g., temporary residents elsewhere) are considered part of their usual household.

[3] Source: BC Stats, P.E.O.P.L.E. 2014, released in September 2014; CMHC calculations.

interest rates have also contributed to higher sales levels, particularly as homebuyers access the low rates on offer ahead of potential increases over the forecast horizon.

As 2015 progresses into 2016, the overall resale market trend will be one of stability. It is anticipated that modest employment growth, increased competition from the market for new homes, and gradually rising mortgage interest rates will support a level of sales close to the 15-year average in 2016, with 6,400 resale homes changing hands.

Higher sales levels combined with a declining supply of listings moved the single-detached home segment of the Victoria area resale market into sellers' conditions in the fourth quarter of 2014, where it remained in the first quarter of 2015. The markets for apartment condominiums and townhomes continue to exhibit a balance between demand and supply. The tighter resale market has put upward pressure on the average home price. As the higher price level encourages new listings and competition from builders of new homes increases in the second half of 2015, balanced market conditions are expected to prevail through the forecast horizon, creating a more stable environment for both buyers and sellers. As a result, there will be less upward pressure on the average price in 2016.

Following a 3.2 per cent increase in 2014, the average MLS® home price is forecast to increase 2.3 per cent in 2015 to reach $508,000, followed by a 1.4 per cent increase to $515,000 in 2016. These modest increases in resale home prices will be supported by the recent declining trend in the number of homes available for sale, paired with sales stabilizing.

Figure 3

Source: MLS® data supplied and seasonally adjusted by CREA (data end point: February 2015).

Figure 4

Source: Canadian Real Estate Association (CREA), CMHC Calculation, February 2015 latest data point

The MLS® Housing Price Index (HPI) composite for the Victoria Real Estate Board area was 142.9 for March 2015, compared to 139.1 one year earlier, a 2.7 per cent increase. This measure uses the concept of a benchmark home (inclusive of all single-detached, townhouses, and apartment condominiums) to provide a measure of price movement that is not influenced by the composition of home sales or the varying features of the home being sold. The benchmark represents a home with common attributes of typical homes in the Victoria area.

Balanced market conditions will prevail in Victoria, as characterized by a modest inventory of active listings, a pick-up in sales and an increase in the HPI slightly ahead of inflation over the past year.

Rental Apartment Vacancy Rates to Remain Stable

Rising demand for rental accommodation in the Victoria CMA is expected to be met by an increasing supply of units, leading to relatively stable apartment vacancy rates and rents through the forecast horizon.

Moderate employment and population growth in the range of 1 to 2 per cent annually, combined with rising migration to the region, will generate demand for rental accommodation in the Victoria CMA in the coming years. On the supply side, new purpose-built rental units currently under construction and recently completed will increase the number of units available in line with demand. The rental apartment vacancy rate is forecast to edge down from 1.5 per cent in 2014 to 1.4 per cent in 2015 and remain at that level in 2016. Due to this balance between supply and demand, as well as competition from the secondary rental market (secondary suites, condominiums for rent, etc.), rent increases for existing units[4] in purpose-built rental apartments are expected to follow the rate of inflation and be approximately 1.5 per cent.

The Victoria region is presently experiencing the highest level of rental construction activity since the early 1990s. Market demand, low financing costs in the current interest rate environment, and favourable development policies and incentives from all levels of government are supporting the construction of an expanded and updated rental stock in the Victoria CMA. While still marginal compared with the total size of the rental universe, 439 new rental units were completed in 2014, with another 318 under construction as of Q1 2015. Over 1,300 rental apartment units are currently proposed for the City of Victoria alone, and while not all of these projects will proceed, interest in rental apartment construction from the developer community is strong.

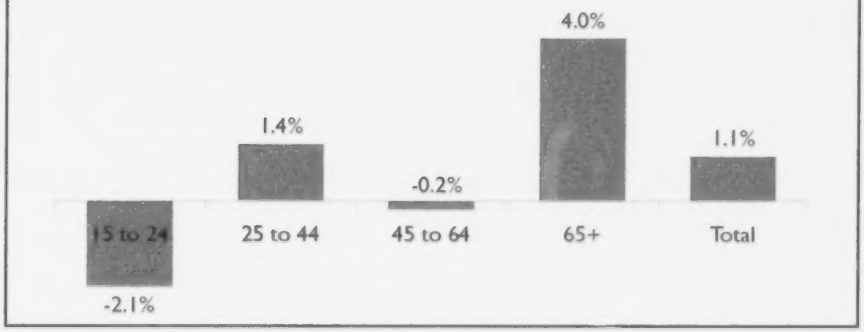
Population growth is forecast to add an average of approximately 4,000 people to the Victoria region each year until 2019[5]. Those aged 25-44 and 65 and older are the population groups projected to grow at the fastest pace during the next five years (see Figure 5), forming new households. Some of these residents, particularly new migrants to the region, will choose rental housing. An estimated 3,556 new migrants called the Victoria CMA home in 2014, up from 2,751 in 2013[6].

Victoria's role as a post-secondary education centre for southern Vancouver Island will also contribute to rental demand, particularly for purpose-built rental apartments, as rents tend to be lower than for private (investor-held) apartments. As their employment prospects continue to improve, many young Millennials[7] will form their own households and live in rental accommodation through their post-secondary and early working years before entering into home ownership. Victoria's relatively high home prices will support this trend. Likewise, retirees, particularly single people in their 70s and 80s, will remain in rental housing, maintaining their independence. The ongoing trend of seniors living longer, healthier, and more active lives will contribute to demand for rental accommodation.

Figure 5

Millennials and Retirees Will Underpin Rental Demand

Annual per cent Change in Victoria CMA Population
2015 - 2019



Source: BC Stats, P.E.O.P.L.E. 2014, CMHC calculations

[4] Depending on the exact number and type of new units completed, the average market rent may increase due to composition effects, as newer units tend to carry higher rents.

[5] Source: BC Stats, P.E.O.P.L.E. 2014, released in September 2014; CMHC calculations.

[6] Source: Statistics Canada. Migration figures include net new residents from elsewhere in BC, other provinces of Canada, and international countries.

[7] For the purposes of this analysis, Millennials are defined as those aged 15-24 years.

Economic Outlook Supports Housing Demand

The Victoria area economy is expected to grow at a pace in line with the province, with fundamentals such as employment and population growth supporting a stable housing market. While an aging population will shape the future direction of the housing market, in the short-term, current economic conditions are expected to have a greater influence on the housing choices of households.

A diversified economy will generate moderate job growth through the forecast horizon. Higher consumer spending and a growing population will translate into growth in the services sector and the economy as a whole. A variety of amenities, a mild climate, and educational and employment opportunities are expected to draw a steady stream of people from other parts of the province and Canada, adding to the region's population. While total employment declined 1.5 per cent in 2014, employment growth of 1.4 per cent in 2015 and 1.6 per cent in 2016 is assumed for this forecast. This will be accompanied by a stable unemployment rate of 5.4 per cent in 2015 and 5.3 per cent in 2016, among the lowest in the province.

With several large post-secondary institutions, Victoria's education sector provides a solid employment base as well as demand for rental housing from a large student population. Start-ups from these institutions and a growing technology sector will also lend support to the region's labour market.

Non-residential investment, which includes transportation infrastructure, commercial development, retail development and renovation, is forecast to generate jobs this year and next. In 2014, the value of commercial, industrial, government and institutional building permits issued in the Capital Region maintained the elevated pace seen during 2013, which represented a 6 per cent expansion over the value of projects undertaken in 2012.

A lower Canadian dollar will continue to benefit the tourism sector, which is a major employer in the region both directly and indirectly. In 2014, Victoria International Airport reported a 6 per cent increase in total passengers compared with 2013, with further gains of 3 per cent recorded in the first two months of 2015. The cruise ship industry, which brings a large number of visitors annually, is expected to see a record 230 ship visits in 2015, up from 206 in 2014, according to the Victoria Port Authority. In addition, Victoria's shipbuilding industry is poised to benefit from several major national and international projects.

Mortgage rates are expected to remain at or close to current levels over the forecast horizon

Mortgage rates will continue to be supportive of housing demand. Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to remain at or very close to current levels over the forecast horizon.

According to CMHC's base case scenario for 2015, the one-year mortgage rate is expected to be in the 2.30 to 3.50 per cent range, while the five-year rate is forecast to be within the 4.00 to 5.50 per cent range. For 2016, the one-year mortgage rate is expected to be in the 2.40 to 4.00 per cent range, while the five-year rate is forecast to be within the 4.20 to 6.20 per cent range.

Trends at a Glance

Key factors and their effects on housing starts	
Mortgage Rates	Mortgage rates will remain low by historical standards and supportive of housing demand.
Population	The pace of population growth is expected to increase through the forecast horizon, driven primarily by net migration to the region.
Employment	A diversified economy will generate moderate job growth through the forecast horizon. Employment growth of 1.4 per cent in 2015 and 1.6 per cent in 2016 is expected.
Income	Real average weekly earnings rose in Q1 2015 compared with the year earlier period, which will provide some support for housing demand in 2015.
Resale Market	Although some segments will favour sellers in early 2015, resale market conditions are expected to be balanced through the forecast horizon.
Supply of Newly Completed and Unabsorbed Units	The supply of multiple-family dwellings has moved lower over the past year, particularly for apartment condominiums, where inventories at the end of Q1 2015 stood at half their level one year earlier. Single-detached supply has been steady near the long-term average in 2015.
Units Absorption:	Absorptions rose in 2014 and are expected to rise through the forecast horizon as demand for new homes increases.

Forecast Risks

This outlook is subject to some risks, including the following:

- Canadian debt levels relative to income may leave households vulnerable to adverse shocks. For instance, if a sharp increase in interest rates or a large deterioration in employment were to occur, some of the more heavily indebted households could be forced to liquidate some of their assets, including their home. This could put downward pressure on house prices and, more generally, on housing market activity. Although this risk can arise in the shorter term, its impact would not be immediate on most indebted households because of the prevalence of fixed mortgage terms.
- Should economic and job growth across a variety of sectors improve more than anticipated, this could encourage higher migration to the Victoria CMA, resulting in demand for new and resale homes being higher than forecast.
- The number of multiple-family projects currently announced or filed with municipal officials for permit consideration exceeds the number of multiple-family starts forecast. If business sentiment or regulatory changes encourage developers to move ahead with projects earlier than anticipated or file entirely new projects, multiple-family starts could be higher than forecast.

Forecast Summary Victoria CMA Spring 2015							
	2012	2013	2014	2015(F)	% chg	2016(F)	% chg
New Home Market							
Starts:							
Single-Detached	552	514	551	650	18.0	650	0.0
Multiples	1,148	1,171	764	1,300	70.2	1,200	-7.7
Semi-Detached	86	60	70	75	7.1	65	-13.3
Row/Townhouse	114	76	113	100	-11.5	85	-15.0
Apartments	948	1,035	581	1,125	93.6	1,050	-6.7
Starts - Total	1,700	1,685	1,315	1,950	48.3	1,850	-5.1
Average Price ($):							
Single-Detached	653,278	690,646	664,127	675,000	1.6	695,000	3.0
Median Price ($):							
Single-Detached	529,900	586,000	549,900	566,000	2.9	550,000	-2.8
New Housing Price Index (% chg.)	-2.8	-1.3	-1.1	-0.7	-	-1.2	-
Resale Market							
MLS® Sales	5,460	5,691	6,371	6,850	7.5	6,400	-6.6
MLS® New Listings	12,766	11,417	11,568	11,600	0.3	11,600	0.0
MLS® Average Price ($)	484,164	480,997	496,473	508,000	2.3	515,000	1.4
Rental Market							
October Vacancy Rate (%)	2.7	2.8	1.5	1.4	-0.1	1.4	0.0
Two-bedroom Average Rent (October) ($)	1,059	1,068	1,095	1,115	1.8	1,135	1.8
One-bedroom Average Rent (October) ($)	828	833	849	865	1.9	880	1.7
Economic Overview							
Mortgage Rate (1 year) (%)	3.17	3.08	3.14	2.30 to 3.50	-	2.40 to 4.00	-
Mortgage Rate (5 year) (%)	5.27	5.24	4.88	4.00 to 5.50	-	4.20 to 6.20	-
Annual Employment Level (persons)	181,700	179,700	174,900	183,400	4.9	186,400	1.6
Employment Growth (%)	2.1	-1.1	-2.7	4.9	-	1.6	-
Unemployment rate (%)	5.6	5.2	5.4	5.4	-	5.3	-
Net Migration	3,317	2,751	3,556	3,700	4.0	3,900	5.4

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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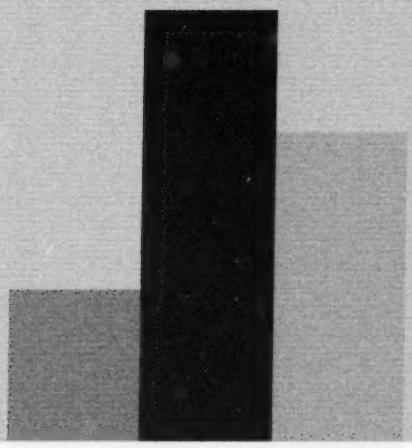

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